

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Harbor Beach Area District Library		County Huron	
Fiscal Year End 6/30/06		Opinion Date 8/23/06		Date Audit Report Submitted to State 10/12/06			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

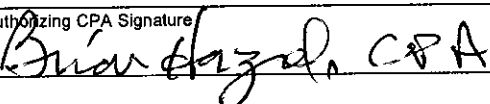
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input type="checkbox"/>	No letter of comments	
Other (Describe)		<input type="checkbox"/>	Single audit not required	
Certified Public Accountant (Firm Name) Nietzke & Faupel, P.C.			Telephone Number 989-453-3122	
Street Address 7274 Hartley Street			City Pigeon	State MI
			Zip 48755	
Authorizing CPA Signature 		Printed Name Brian Hazard, CPA		License Number 1101014007

**HARBOR BEACH AREA
DISTRICT LIBRARY
HARBOR BEACH, MICHIGAN**

**FINANCIAL REPORT
JUNE 30, 2006**

HARBOR BEACH AREA DISTRICT LIBRARY

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INDEPENDENT AUDITOR'S REPORT

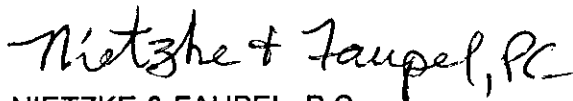
To the Board of Trustees
Harbor Beach Area District Library
Harbor Beach, Michigan 48441

We have audited the accompanying financial statements of the governmental activities and each major fund of the Harbor Beach Area District Library as of and for the year ended June 30, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Harbor Beach Area District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Harbor Beach Area District Library, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules information on pages ii through v and 13 through 15, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

August 23, 2006

Management's Discussion and Analysis

This discussion and analysis of the Harbor Beach Area District Library's financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Library's financial statements.

Using this Annual Report

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library:

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. The second column includes information on the Library's Special Revenue Fund. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below shows key financial information in a condensed format between the current year and the prior year:

Assets	2005-06	2004-05
Cash & equivalents	\$ 499,912	\$ 477,838
Accounts receivable	2,428	3,092
Reserved & restricted cash assets	217,898	181,500
Capital assets	<u>624,527</u>	<u>635,857</u>
Total Assets	<u>\$1,344,765</u>	<u>\$1,298,287</u>
Liabilities		
Long term liabilities	\$ 0	\$ 0
Other liabilities	<u>16,486</u>	<u>43,471</u>
Total Liabilities	<u>\$ 16,486</u>	<u>\$ 43,471</u>
Net Assets		
Invested in capital assets	\$ 624,527	\$ 635,857
Restricted for donor-restricted purpose	5,708	5,815
Restricted funds	212,190	205,756
Unrestricted Funds	<u>485,854</u>	<u>407,388</u>
Total Net Assets	<u>\$ 1,328,279</u>	<u>\$1,254,816</u>
Revenue		
Program Revenue:		
Charges for services – Theatre	\$ 78,628	\$ 86,277
General Revenue:		
Property Taxes	336,891	327,750
Fines	27,669	26,839
Interest	19,643	10,675
Other revenue	<u>33,091</u>	<u>28,092</u>
Total Revenue	<u>\$ 495,922</u>	<u>\$ 479,633</u>
Program expenses:		
Library	\$ 301,032	\$ 287,588
Theatre	73,651	75,303
Depreciation	<u>47,776</u>	<u>45,028</u>
Total expenses	<u>422,459</u>	<u>407,919</u>
Change in Net Assets	73,463	71,714
Net assets – Beginning of the year	<u>1,254,816</u>	<u>1,183,102</u>
Net assets – End of the year	<u>\$ 1,328,279</u>	<u>\$1,254,816</u>

The Library as a Whole

The Library's main source of revenue is through a perpetual millage of 1.6000 mills approved in September of 1994. The millage has since been reduced by MCL 211.34d "Headlee" to 1.5781 mills. Even with the Headlee reduction, the Library's revenue from property tax collection has increased due to an increase in district property values. Property taxes represent 68% of the Library's total revenues.

Salaries and fringe benefits are a significant expense of the Library, representing 53% of the Library's total expenses.

The Library's revenue exceeds the expenses this year by \$73,463. There were investments in the Library's book collection (\$17,066) and capital outlay (\$20,815). The excess revenue over expenses and capital improvements were offset by depreciation of \$47,776 to give the Library an increase of \$73,463 in net assets.

The Library's Funds

The Library has undesignated, reserved and restricted funds. The Library uses undesignated funds to pay regular operating expenses and other expenses as approved by the Board.

The reserved funds have been designated for specific purposes. Technology improvements, unemployment funding, sick pay, memorial & special projects and capital improvements are current designations for reserved funds. Money is set aside in the capital improvement funds for long range needs, such as: replacing the heating/cooling system, roof replacement, window replacement, and other major maintenance or improvement needs.

The Library also has the Willett Trust Fund. The donor restricted the use of the interest revenue of the fund for the purpose of purchasing new children's books. The principal in the Willett Trust Fund cannot be spent.

Special Revenue Fund (Theatre)

The Special Revenue Fund (Theatre) had gross income of \$83,343 for the fiscal year 2005-2006. It also had expenses for the same fiscal period totaling \$78,651. This resulted in an operating income of \$4,692 compared to \$5,974 in the previous year.

Budgetary Highlights

As required by State of Michigan law, the Library amended the budget to take into account events during the year. There was a significant amendment to Interest Revenue due to higher interest rates offered by financial institutions on the Library's deposits. The reason for the large adjustments to Salaries and Insurance Benefits is because the original budget was set to include insurance coverage for all of the full time employees. One of the employees chose to opt out of the insurance as allowed by the employee handbook and received an additional salary in lieu of insurance coverage.

The Library's Concert Series was very successful and will be offered again in the coming fiscal year.

The Library did not make any major improvements to the building in 2005-06 because the Library has also been working with R.C. Hendrick & Son Inc. and Wigen, Tinknell, Meyer and Associates to design plans for a renovation of the Community House. Architect fees for the design of the proposed renovation totaling \$5,902 were paid from 2005-2006 budget.

The Special Revenue Fund had an excess revenue over expenses of \$4,692.

Capital Asset and Debt Administration

As of June 30, 2006, the Library had \$1,328,279 invested in a broad range of assets, including cash deposits, building, collections, and equipment. This is an increase in total net assets of 6% during the current fiscal year.

The largest portion of the capital outlay expenditures for fiscal year 2005-06 was spent for equipment purchases. These purchases totaled \$12,626 and included stage rigging, computers, sound equipment upgrades, and a projector.

The Library does not have any long-term debts.

Next Year's Budgets and Millage Rates

The Library's millage rate will not have a Headlee reduction for the taxes due December 1, 2006 and the property tax value increased by 5%. This will result in an increase in tax revenue for the next fiscal year.

The Board placed a bond proposal on the August 8, 2006 ballot to finance the proposed library renovation project. The proposal was defeated. The Board is considering the possibility of placing the proposal on a future ballot or developing a new plan for the future of the library building.

New line items for Technology Equipment and Technology Maintenance have been added to the 2006-07 budget. These line items will make it easier to track technology investments and assist in technology planning. Advancements in technology make it necessary for the Library to upgrade its computer equipment on a regular basis in order to provide better services for the patrons.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the director, Vicki Mazure, at (989) 479-3417.

BASIC FINANCIAL STATEMENTS

HARBOR BEACH AREA DISTRICT LIBRARY

GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS JUNE 30, 2006

	<u>MODIFIED ACCRUAL BASIS</u>			<u>STATEMENT</u>
<u>ASSETS</u>	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>ADJUSTMENTS</u>	<u>OF NET ASSETS</u>
Cash and deposits	\$ 88,656	\$42,177		\$ 130,833
Investments	369,079			369,079
Accounts receivable	2,428			2,428
Restricted asset:				
Cash	217,898			217,898
Capital assets - net			\$ 624,527	624,527
TOTAL ASSETS	<u>\$678,061</u>	<u>\$42,177</u>	<u>\$ 624,527</u>	<u>\$ 1,344,765</u>
<u>LIABILITIES AND FUND EQUITY</u>				
LIABILITIES:				
Accounts payable	\$ 8,013	\$ 3,813		\$ 11,826
Accrued payroll taxes	1,065	182		1,247
Accrued wages	2,894	519		3,413
TOTAL LIABILITIES	<u>11,972</u>	<u>4,514</u>		<u>16,486</u>
FUND BALANCE/NET ASSETS:				
Fund balance:				
Unreserved, undesignated	448,191	37,663	\$ (485,854)	-
Reserved	217,898		(217,898)	-
TOTAL FUND EQUITY	<u>666,089</u>	<u>37,663</u>	<u>(703,752)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$678,061</u>	<u>\$42,177</u>		
NET ASSETS:				
Invested in capital assets			624,527	624,527
Restricted			217,898	217,898
Unrestricted			485,854	485,854
TOTAL NET ASSETS			<u>\$ 1,328,279</u>	<u>\$ 1,328,279</u>

HARBOR BEACH AREA DISTRICT LIBRARY
STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

	<u>MODIFIED ACCRUAL BASIS</u>			<u>STATEMENT OF</u>
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>ADJUSTMENTS</u>	<u>ACTIVITIES</u>
REVENUES:				
Taxes	\$ 336,891			\$ 336,891
State grants	4,529			4,529
Charges for services		\$ 78,628		78,628
Fines and forfeits	27,669			27,669
Rentals	13,745	862		14,607
Interest	18,682	961		19,643
Other revenue	16,063	2,892	\$ (5,000)	13,955
TOTAL REVENUES	<u>417,579</u>	<u>83,343</u>	<u>(5,000)</u>	<u>495,922</u>
EXPENDITURES:				
Salaries and wages	136,531	25,376		161,907
Employer FICA	11,050	1,495		12,545
Retirement	10,791	1,897		12,688
Employee benefits	34,334			34,334
Insurance - Workers Comp.	2,967			2,967
Unemployment	1,047			1,047
Books	17,066		(16,364)	702
Magazines & periodicals	2,039			2,039
Video cassettes	9,486			9,486
Computer software	1,570			1,570
White Pine contract	2,271			2,271
HB historical video	1			1
Copier lease	1,369			1,369
Furniture and equipment	329			329
Film rental		19,855		19,855
Concession purchases		14,023		14,023
Pickup & delivery		2,487		2,487
Supplies	3,811	819		4,630
Utilities	27,410	668		28,078
Water & sewer	750			750
Internet access	740			740
Telephone	3,144			3,144
Repairs & maintenance	17,032	553		17,585
Custodial service		5,000	(5,000)	

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH AREA DISTRICT LIBRARY
STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

	MODIFIED ACCRUAL BASIS			STATEMENT OF ACTIVITIES
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>ADJUSTMENTS</u>	
(CONTINUED)				
Insurance	14,306	200		14,506
Advertising	3,823	6,278		10,101
Audit fees	2,400			2,400
Meals and mileage	1,624			1,624
Workshops	782			782
Friends of the Library	1,329			1,329
Adult library program	415			415
Concert series	5,965			5,965
Summer reading program	1,793			1,793
Story hour	488			488
Depreciation			47,776	47,776
Capital outlay	20,815		(20,082)	733
TOTAL EXPENDITURES	337,478	78,651	6,330	422,459
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	80,101	4,692	(11,330)	73,463
FUND BALANCE/NET ASSETS - JULY 1	585,988	32,971	635,857	1,254,816
FUND BALANCE/NET ASSETS - JUNE 30	<u>\$ 666,089</u>	<u>\$ 37,663</u>	<u>\$ 624,527</u>	<u>\$ 1,328,279</u>

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Harbor Beach Area District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Harbor Beach Area District Library:

Reporting Entity:

In accordance with the provisions of the Governmental Accounting Standards Board Statement No. 14, the definition of the reporting entity is based primarily on the notion of financial accountability. The District Library is a primary government and is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. These types of organizations are deemed component units.

Based on the provisions of GASB 14, there are no organizations that are deemed to be component units of Harbor Beach Area District Library.

Basis of Presentation:

The accounts of the District Library are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues, and expenditures or expenses as appropriate.

Governmental Funds:

The District Library reports the following major governmental funds:

General Fund – The General Fund accounts for the general operating expenditures of the District Library not recorded elsewhere. Revenues are derived primarily from property taxes, State distributions and penal fines.

Special Revenue Fund – The Community Theater Fund is used to account for specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action.

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Modified Accrual and Full Accrual Data:

The Library has two funds, the General Fund, which is the Library's primary operating fund, and the Special Revenue Fund, which is the Theater's operating fund.

Both the General Fund and the Special Revenue Fund are budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

In addition to presenting information for the General and Special Revenue funds, the basic financial statements combine all fund activity and present information for the Library as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Budgets:

Formal budgetary integration is employed as a management control device during the year for the Governmental Fund types. The budgets are adopted on a basis consistent with generally accepted accounting principles.

The Board of Trustees prepares the budgets on a line item basis. Any revisions that alter any line item appropriation must be approved by the Board of Trustees. Therefore, the level of budgetary responsibility is at the line item level.

Unused appropriations lapse at the end of the year.

Capital Assets:

Generally, capital assets are defined by the Library as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Library books, CDs, and audio and visual tapes which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite their individually small cost.

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Capital Assets: (Continued)

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building and building improvements	20-40 years
Furniture and equipment	5-10 years
Library books	5 years

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Property Taxes:

During 1994, the voters of the Harbor Beach Area District Library approved a millage of 1.6 mills on all real and personal property. This levy is collected by the Townships and City within the Library's boundaries based on the following schedule: Properties are assessed as of December 31, and the related property taxes become a lien on December 1 of the following year. These taxes have a final collection date of February 28 before they are added to the County's delinquent tax rolls. The delinquent real property taxes are purchased by the County's Revolving Tax Fund. Management's policy of revenue recognition for property taxes is to record the revenue in the year levied.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

NOTE 2 – BUDGET COMPLIANCE:

P.A. 2 of 1968, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the required supplemental information, the District Library's actual and budgeted expenditures have been shown on a line item basis. The approved budgets of the District Library have also been adopted to the line item level.

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 2 – BUDGET COMPLIANCE: (CONTINUED)

During the year ended June 30, 2006, the District Library did not incur any expenditures which were in excess of the amounts appropriated.

NOTE 3 – CASH AND INVESTMENTS:

Deposits are carried at cost. Deposits of the District Library are at various banks in the name of the Treasurer as an officer of the District Library. In accordance with Michigan Compiled Laws, the District Library is authorized to deposit and invest in banks, savings and loan associations or credit unions having a principal office or branch office in this state; obligations of the U.S. Treasury, the principal and interest of which are fully guaranteed by the United States; certificates of deposit of a state or national bank or state or federal savings and loan association; commercial paper rated prime and maturing within 270 days of purchase; securities issued or guaranteed by agencies or instrumentality's of the U.S. government; U.S. government or federal agency obligation repurchase agreements; bankers' acceptances issued by a bank which is a member of the F.D.I.C.; mutual funds composed of investment vehicles that are legal for direct investment by a district library; investment pools composed entirely of instruments that are legal for direct investment by a district library.

The District Library's deposit and investment policies are as follows:

Interest rate risk. In accordance with its investment policy, the District Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of June 30, 2006, \$469,138 of the Library's bank balance of \$723,208 was exposed to custodial credit risk because it was uninsured and uncollateralized.

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 3 – CASH AND INVESTMENTS: (Continued)

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District Library will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District Library will do business.

Foreign currency risk. The District Library is not authorized to invest in investments which have this type of risk.

As of June 30, 2006, the District had the following investments.

<u>INVESTMENT TYPE</u>	<u>FAIR VALUE</u>	<u>WEIGHTED AVERAGE MATURITY (YEARS)</u>	<u>%</u>
Pooled investment funds:			
Comerica Bank-Governmental cash			
Investment fund J	\$369,079	0.0027	100%
Portfolio weighted average maturity		0.0027	
1 day maturity equals 0.0027, one year equals 1.00			

NOTE 4 – CAPITAL ASSETS:

Capital asset activity of the Library is as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Land improvements	\$139,372			\$139,372
Building improvements	456,291			456,291
Equipment	135,200	\$ 12,626	\$ 14,204	133,622
Construction in progress		7,456		7,456
Collections	110,991	16,364		127,355
	841,854	36,446	14,204	864,096
Accumulated depreciation	205,997	47,776	14,204	239,569
Net capital assets	<u>\$635,857</u>	<u>\$(11,330)</u>	<u>\$ 0</u>	<u>\$624,527</u>

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 5 – FUND BALANCE, RESERVED:

Various certificates of deposit have been designated for specific purposes. The following reservations have been made:

Unemployment Fund	\$ 12,919
Willet Trust Fund	5,708
Technology Fund	23,220
Memorial and Special Projects	11,150
Sick Pay Fund	20,800
Capital Outlay Funds	<u>144,101</u>
TOTAL FUND BALANCE RESERVATIONS	<u>\$217,898</u>

NOTE 6 – PENSION PLANS:

Defined Contribution Pension Plan:

The District Library provides pension benefits for all its employees through a defined contribution SEP plan except as described below. Employees over the age of 21 are eligible to participate 90 days after their date of employment. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

The plan requires the District Library to contribute an amount equal to 8% of the employee's base salary each quarter, but does not require or allow employee contributions. The District Library's contributions for each employee and the interest allocated to the employees' accounts are fully vested at all times.

The District Library's total payroll for the year ended June 30, 2006, was \$161,907. The District Library's contributions were calculated using the base salary amount of \$158,602 and the District Library made the required contributions amounting to \$12,688.

NOTE 7 – LEASE

The District Library was leasing a copier under a noncancelable operating lease which expired May 2006. A new four year lease was signed. The following is a schedule by years of future minimum rentals under the lease at June 30, 2006:

Year Ending June 30:	
2007	\$1,298
2008	1,298
2009	1,298
2010	1,190

This lease contains an option whereby the District Library can purchase the copier at fair value at the end of the lease term. Lease expense under this noncancelable lease was \$1,369 for 2006.

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 8 – RISK MANAGEMENT:

Property, liability and worker's compensation insurance and health and disability benefits are contracted by the District Library with commercial insurance providers. For the year ended June 30, 2006, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 9 – RECONCILIATION OF BASIC FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS:

Total fund balance and the net change in fund balance of the Library's funds differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the balance sheet and statement of revenue, expenditures, and changes in Fund Balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance – Modified accrual basis	\$ 703,752
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	<u>624,527</u>
Net Assets – Full accrual basis	<u>\$1,328,279</u>
 Net change in Fund Balance – Modified accrual basis	 \$ 84,793
Amounts reported in the statement of activities are different because:	
Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Library books and collection materials	16,364
Capital outlay	20,082
Depreciation	<u>(47,776)</u>
Change in Net Assets – Full accrual basis	<u>\$ 73,463</u>

REQUIRED SUPPLEMENTAL INFORMATION

HARBOR BEACH AREA DISTRICT LIBRARY

BUDGETARY COMPARISON SCHEDULE GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2006

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Taxes	\$ 335,494	\$ 335,494	\$ 336,891	\$ 1,397
State grants	4,300	4,300	4,529	229
Fines and forfeits	23,000	24,000	27,669	3,669
Rentals	9,000	12,050	13,745	1,695
Interest	8,000	14,000	18,682	4,682
Other revenue	10,100	11,600	16,063	4,463
TOTAL REVENUE	<u>389,894</u>	<u>401,444</u>	<u>417,579</u>	<u>16,135</u>
EXPENDITURES:				
Recreation & Cultural:				
Salaries & wages	132,000	139,600	136,531	3,069
Employer FICA	10,100	11,810	11,050	760
Retirement	10,600	11,140	10,791	349
Employee benefits	52,866	42,866	34,334	8,532
Insurance - Workers Comp.	2,850	2,969	2,967	2
Unemployment	600	1,047	1,047	
Books	21,500	21,800	17,066	4,734
Magazines & periodicals	3,000	3,000	2,039	961
Video cassettes	10,500	10,800	9,486	1,314
Computer software	1,200	1,600	1,570	30
White Pine contract	3,000	3,000	2,271	729
HB historical video	10	10	1	9
Copier lease	1,200	1,500	1,369	131
Furniture and equipment	1,500	1,381	329	1,052
Supplies	4,200	4,200	3,811	389
Utilities	26,000	29,071	27,410	1,661
Water & sewer	600	850	750	100
Internet access	3,000	1,000	740	260
Telephone	3,500	3,500	3,144	356
Repairs & maintenance	18,000	18,200	17,032	1,168
Insurance	14,500	14,500	14,306	194
Advertising	1,800	4,250	3,823	427
Elections & legal fees	1,000	1,000		1,000
Contingencies	818			
Audit fees	2,400	2,400	2,400	

HARBOR BEACH AREA DISTRICT LIBRARY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)
(CONTINUED)				
Meals & mileage	2,000	2,500	1,624	876
Workshops	1,250	1,400	782	618
Friends of the Library	1,400	1,400	1,329	71
Adult library programs	1,000	1,000	415	585
Concert series	5,000	6,000	5,965	35
Summer reading program	2,000	2,000	1,793	207
Story hour	500	650	488	162
Capital outlay	50,000	55,000	20,815	34,185
TOTAL EXPENDITURES	389,894	401,444	337,478	63,966
EXCESS OF REVENUES OVER EXPENDITURES	-	-	80,101	80,101
FUND BALANCE - JULY 1	585,988	585,988	585,988	
FUND BALANCE - JUNE 30	<u>\$ 585,988</u>	<u>\$ 585,988</u>	<u>\$ 666,089</u>	<u>\$ 80,101</u>

HARBOR BEACH AREA DISTRICT LIBRARY

BUDGETARY COMPARISON SCHEDULE SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2006

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Charges for services	\$ 79,000	\$ 76,300	\$ 78,628	\$ 2,328
Rentals	500	860	862	2
Interest	500	675	961	286
Other revenue	<u>1,500</u>	<u>2,460</u>	<u>2,892</u>	<u>432</u>
TOTAL REVENUE	<u>81,500</u>	<u>80,295</u>	<u>83,343</u>	<u>3,048</u>
EXPENDITURES:				
Recreation & Cultural:				
Salaries & wages	28,000	26,000	25,376	624
Employer FICA	2,050	2,125	1,495	630
Retirement	2,150	1,975	1,897	78
Film rental	20,000	19,886	19,855	31
Concession purchases	14,200	14,045	14,023	22
Pickup & delivery	2,000	2,600	2,487	113
Supplies	800	889	819	70
Utilities	600	675	668	7
Repairs & maintenance	1,000	600	553	47
Custodial service	5,000	5,000	5,000	
Insurance	200	200	200	
Advertising	<u>5,500</u>	<u>6,300</u>	<u>6,278</u>	<u>22</u>
TOTAL EXPENDITURES	<u>81,500</u>	<u>80,295</u>	<u>78,651</u>	<u>1,644</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>4,692</u>	<u>4,692</u>
FUND BALANCE - JULY 1	32,971	32,971	32,971	
FUND BALANCE - JUNE 30	<u>\$ 32,971</u>	<u>\$ 32,971</u>	<u>\$ 37,663</u>	<u>\$ 4,692</u>